

# Is this the end of 19-seater production?

Following a large number of Beech 1900s being returned from lessees, Raytheon may be close to ending production. Used aircraft are now available at a third the lease rates of new equipment.

**R**ecent events at Raytheon and the three largest Beech 1900D operators of the could see the end of the only 19-seater in production.

The biggest Beech 1900 customer was Mesa Air Group, and in recent years the problems at the airline have become the 1900D's problems.

Mesa had 119 Beech 1900Ds in 1998, when it lost its an agreement with United to provide United Express services. Within two years this had been reduced to 77, with aircraft returned to Raytheon and a large number leased on to Great Lakes Aviation. In August 2000 Raytheon agreed to take back 31 aircraft, leaving Mesa with just 46.

In April 2001 Mesa pulled out of the Regional Airlines Association, claiming that it was not doing enough to support 19-seat operators. Mesa then announced the formation the Regional Airline Partnership, to pressurise Raytheon to lower lease rates on the 1900D.

Amid the publicity, Mesa announced it had stopped making loan payments on its 1900Ds to bring Raytheon to the negotiating table. Mesa is seeking reductions in lease rates to what it believes is the norm for 19-seaters.

A younger 1900D is typically available for about \$35,000 per month, while the Jetstream 31/32 and Metro are

available for nearer \$10,000 per month. As well as reducing the cost of the Beech 1900D, Mesa is looking for Raytheon to accept the immediate return of a further four aircraft. Mesa is willing to commit long-term to the remaining 42 in exchange.

Great Lakes Aviation has benefited from Raytheon support. The airline operates a fleet of 44 1900C/Ds and eight Embraer Brasilia's. All but two of these are financed through Raytheon, including the Brasilias. The airline's auditors, KPMG, recently made the comment that there was substantial doubt about its ability to continue. Raytheon will suffer in the event that the airline fails, since as well as the return of the aircraft it is also the airline's largest creditor.

Raytheon's desire to maintain the Beech 1900 in production has resulted in some interesting transactions. Most recently Commutair traded in 26 early model 1900Ds (built in 1992-1993) for an equal number of new production aircraft. The logic of such a transaction always appeared questionable. Within six months of the last aircraft being delivered Commutair announced a restructuring, requiring the loss of 40% of its workforce and the return of 12 of its 1900Ds. By a quirk of fate, Commutair is run by the current president of the Regional Airline Association.

Raytheon's appetite for trade-ins has created a rapidly increasing inventory. At the end of June 2000 the company had a total of 41 regional aircraft in its inventory. By December 2000 this had increased to 101 and was up to 108 by June 2001. It is expected to reach 125 by the end of 2001.

As well as the 1900Ds taken back from Mesa and Commutair, Raytheon has 30 earlier 1900C aircraft parked. Many of these were taken in trade from Commutair, Great Lakes Aviation and Mesa against their orders for 1900Ds.

Raytheon claims an active market for used 1900s, but many of the operators that have leased aircraft are financially weak. Many fail, returning aircraft.

In response to these market conditions, Raytheon has taken steps to cut production from 54 aircraft produced last year. In the first quarter of 2001 only three aircraft were delivered, and in the second quarter only two. It is not all doom and gloom, since earlier this year Air New Zealand selected the type to replace the geriatric Bandeirantes and Metro IIIs and ordered 16.

What is demonstrated by both Mesa and Air New Zealand is that there will always be 19-seater routes. The latter also demonstrates that not all airlines want to operate used equipment. The question is then simply whether a manufacturer can justify continued production in the face of strong pressure from the availability of large numbers of used aircraft. Raytheon has been able to finance new production aircraft, with a list price of \$5 million, at rates of \$35,000 per month. If the market is now only willing to pay \$10,000 per month for similar sized aircraft then there is no way Raytheon can justify continued production. 



*The number of Beech 1900s returned to Raytheon has increased from 41 to 108 in the past year, and could soon reach 125. Major operators are complaining about lease rates of \$35,000 per month, when used 19-seaters can be acquired for about \$10,000 per month.*